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The USAID Program in the West Bank and Gaza

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Madam Chairwoman, thank you for the opportunity to testify today on the USAID program in the West Bank and Gaza.

The unprecedented opportunity created by the Palestinian presidential, municipal and legislative council elections, combined with Israel's planned disengagement from Gaza, is being addressed by the US government through a combination of diplomacy, donor coordination, and assistance packages.

To meet and support the dramatic changes taking place in the Palestinian territories, we are both reprogramming existing funds to provide immediate assistance, and requesting additional funds to bridge the immediate and medium term, and to provide longer-term support for the creation of a viable Palestinian state coexisting peacefully and productively with its neighbors. We are using these reprogrammed and additional funds for:

1. Ongoing humanitarian programs: to provide essential food aid and emergency assistance to needy families.
2. Immediate response to the successful elections: Reprogrammed funds are supporting activities that have a direct impact on the wellbeing of Palestinians, in particular small-scale projects that have high employment generation capability.
3. Opportunities to seize the day during the initial transition: New funds provided in the proposed supplemental would continue generating income opportunities, and would begin some larger scale economic and institution-building work to support the Gaza disengagement plan and help strengthen the foundation for an eventual Palestinian state.
4. Sustained programs to promote systemic transformation: New funds in the longer term (FY 2006 and beyond) would continue work initiated through the supplemental funding as well as initiate additional projects designed to facilitate meeting the objective of statehood.

Our current West Bank and Gaza program is designed to help alleviate the hardships faced by many average Palestinians since the beginning of the Intifada in 2000, and at the same time address longer-term development needs by promoting reform, revitalizing the private sector, and building human capital. Under the program, jobs have been created, businesses revitalized, roads and water infrastructure built, health care and nutrition needs of the most vulnerable met, and the rule of law and anti-corruption measures promoted.

Our private sector programs have assisted some 1,000 businesses to penetrate new markets, creating 5,000 jobs and generating \$25 million in exports. USAID-funded water infrastructure has provided a reliable source of clean water for 500,000 Palestinians across the West Bank and Gaza. We have also funded programs to develop the capacity of the Palestinian Legislative Council (PLC) and the Palestinian Monetary Authority, to assist the Minister of Finance in strengthening the internal audit capacity of the Palestinian Authority, and to restructure the new Ministry of National Economy. One benefit of this assistance was evident recently when the PLC used its newly developed capabilities to influence the Executive Branch in the selection of a reform-oriented cabinet. Under the health program, we trained health workers, provided medical supplies and essential drugs, and distributed health education kits to more than a 1,000 women living in isolated communities, training them to recognize danger signs during pregnancy and newborn care.

Let me briefly summarize the new assistance programs and what we are doing to address the specific development challenges that we face on the ground.

Immediate Assistance

Immediate assistance has taken two forms. First, on December 8, 2004 President Bush signed a determination that waived limitations on assistance to the Palestinian Authority in order to allow \$20 million in aid to the interim Palestinian leadership. This urgently needed budgetary support gave a financial boost to the new government as it pushed its reform agenda and prepared for elections, and was used wholly to meet utility costs the Palestinian Authority had incurred. This was the second time the USG has provided direct budgetary support to the PA. In the summer of 2003, USAID and the PA entered into a cash transfer agreement that financed the provision of utility services and the repair and rehabilitation of municipal infrastructure. Safeguards were built into these agreements to make sure that funds were used for the purposes intended.

Second, over the next ninety days, USAID will use \$41 million reprogrammed from a planned water infrastructure project to implement a number of activities that will demonstrate tangible economic and social benefits of reform. Activities include a robust microfinance program that will benefit 10,000 Palestinians, an agricultural program that can provide sustained increases in employment opportunities, and a variety of small water infrastructure projects that will benefit as many as 400,000 residents. Community facility construction and road reconstruction will provide employment as well as a safe recreational environment for young Palestinians. Health facilities and emergency assistance will be provided to 480,000 needy Palestinians.

\$200 Million FY 2005 Supplemental Request

Our \$200 million FY 2005 supplemental request is designed to further signal the USG's deepened engagement and allow us to maximize the opportunities available during this critical time. In addition to emphasizing new programs in the areas of democracy and governance, the supplemental will enable Palestinians to seize economic opportunities that may emerge after Israel's withdrawal from Gaza and the four settlements in northern West Bank and address such pressing social issues as the productive engagement of youth.

We intend to allocate \$110 million for the economic revitalization of the West Bank and Gaza, in particular after disengagement. Activities will support job creation, improved access to trade in international markets, loans for home construction, improved municipal services, and infrastructure development. We will use up to \$50 million of these funds to support the establishment of a World Bank-recommended pilot program to upgrade and improve the passages through which Palestinian goods and people transit to Israel and the rest of the world. This urgently needed project will help ensure that Israeli security needs are met as disengagement goes forward, will respond to Israel's continuing effort to find the appropriate balance between the imperative need to respond to terrorism and the humanitarian interests of the Palestinian people, and will help the Palestinian economy recover and become less dependent on outside assistance.

We also intend to allocate \$90 million for economic, social, political and security infrastructure development, with a focus on judicial, legislative and civil society strengthening, political party development, media strengthening, health and social services in particular to the poor, and strengthened security structures to confront terror and violence and restore the rule of law.

By supporting the above activities the USG will strengthen political moderates as well as the institutions of statehood, will help to provide an alternative source of public services to those offered by Hamas, and will provide tangible, immediate benefits to Palestinians.

\$150 Million FY 2006 Regular Request

Our FY 2006 request will, among other things, build on and enhance the activities that were started under the FY 2005 Supplemental Budget Request. During the Intifada much of USAID assistance was reprogrammed towards humanitarian relief and emergency programs. USAID intends to use the increased FY 2006 funding as a way to further its longer-term development objectives.

For example, under its private sector objective USAID will continue its support for: (1) creating jobs and improving the performance of a micro, small, and medium enterprises and financial institutions; (2) assisting the Palestinians in establishing a national trade promotion organization; (3) an initiative that would support development of a state of the

art business school at one of the Palestinian universities; and (4) developing a major agriculture revitalization initiative that will establish private sector partnerships and linkages with Israeli marketing firms to increase agricultural production and exports to regional and international markets.

In the area of water resources development, USAID will continue well drilling activities in the West Bank, and for construction activities under the wastewater treatment plant activity in Hebron. We will support the institutional development of both the Palestinian Water Authority and the Department of Roads within the PA Ministry of Public Works and Housing, addressing water development and planning related institutional challenges. Finally, USAID will fund the continuation of the village water distribution project, which provides safe and sustainable water and sanitation services to about 150,000 residents of 10 villages near Nablus.

Under its democracy and governance initiatives the major priorities USAID intends to address in FY 2006 are (1) strengthening the rule of law and the judiciary; (2) supporting the Palestinian Legislative Council and Executive Branch policy units; (3) improving the quality of governance and the service delivery capabilities at the local level; and (4) continued support for civil society programs.

In the area of higher education USAID will provide support for scholars under the Presidential Scholarship Program; continue to strengthen Palestinian institutions of higher learning by providing local scholarships to students in fields that meet immediate and critical needs; provide funding to enable access to electronic journals and databases at universities worldwide; and provide funding for research proposals in the scientific and social sectors. USAID will also introduce a vocational training activity.

In the health sector, USAID will continue to provide training and quality improvement, management assistance, capacity building, behavior change, communication, policy dialogue, advocacy, and procurement of medical equipment, supplies, vitamins and minerals for its family planning, child survival, health and nutrition programs. Palestinian NGOs and other institutions will also be supported with research to provide data for decision making and USAID will continue to assist Palestinian institutions in strengthening their policies and programs regarding food fortification and micronutrient deficiencies.

In the community services area, two new programs will be introduced. The first, a four year program to support youth and organizations that provide youth services will focus on: (1) youth incomes and job opportunities; (2) awareness and training to change youth behaviors; (3) recreational infrastructure for youth; and (4) educational and vocational training. A second program, also to be implemented over four years, will support municipalities and town and village councils in the West Bank and Gaza with an aim to strengthen democratic governance, accountability, and responsiveness, while improving municipal planning and management capacities. USAID will seek to ensure that the municipalities, town and village councils that it supports, are able to deliver a range of services that are sustainable, tangible and highly visible.

Program Management

Managing the West Bank and Gaza program is a challenging exercise. Special vetting procedures in addition to USAID's anti-terrorism certification process are in place to guarantee that no US Government resources fall into terrorist hands. The USAID Mission also works closely with Embassy/Tel Aviv and the Consul-General's office in Jerusalem to assure that program identification, development and implementation are coordinated with policy interests, in recognition that our development assistance to the Palestinians is part and parcel of overall US foreign policy in the region. The U.S. assistance program is a key factor in the development of a viable Palestinian state coexisting with its neighbors, in particular Israel.

Travel restrictions imposed due to security concerns present additional challenges. Often parts of the territories have been closed to travel by USG officials for long periods of time. USAID has adapted its programs to these extraordinary circumstances, balancing the desire to maintain program presence while at the same time assuring prudent management. Extensive use of qualified foreign service national staff and contract personnel has allowed various activities that do not require intense American oversight to continue.

Conclusion

The West Bank and Gaza program has successfully responded to the ever-changing conditions on the ground. The program has provided a robust response to the difficult humanitarian situation, while maintaining longer term development projects, including the strengthening of institutions that will underpin a future Palestinian state. In this

way, the program has played an important role in furthering US foreign policy objectives in the region.